Weekly Economic Review

Alberta inflation firms

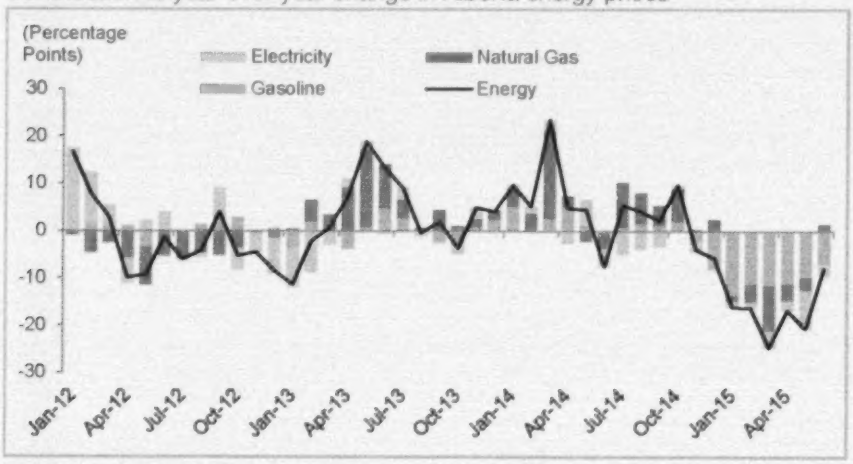
Consumer Price Index (CPI)

Energy prices weigh slightly less on inflation

The Alberta Consumer Price Index (CPI) rose 1.7% year-over-year (y/y) in June, well above May's reading and the highest rate of inflation since December as energy prices weighed on inflation less than in previous months (Chart 1). Both gasoline prices and natural gas prices moved up in June, though gasoline prices remain down year-over-year (-14% y/y). Food prices remain elevated at 3.8% y/y, due to meat, and fresh fruit and vegetable prices. Furniture and household appliances also added to inflation in June. Shelter prices have strengthened, because of higher natural gas prices.

Chart 1: There is less drag on inflation from energy prices

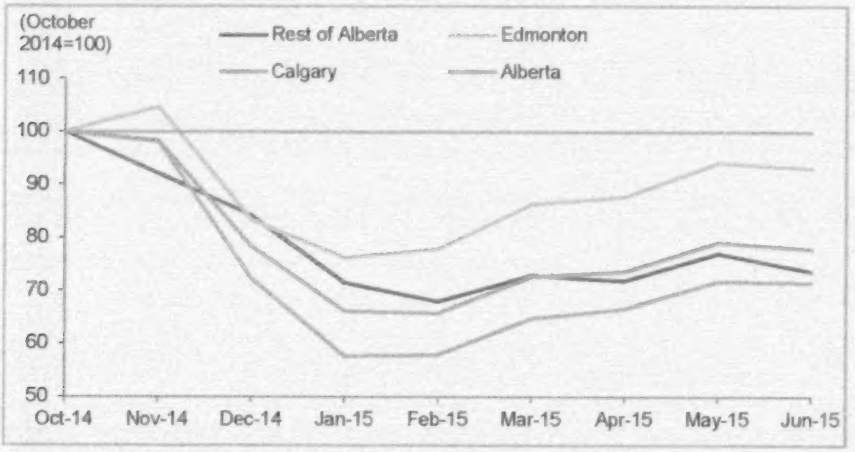
Contribution to year-over-year change in Alberta energy prices



Source: Statistics Canada

Chart 2: The housing correction has been easier on Edmonton

Alberta existing home sales indexed to October 2014



Source: Canadian Real Estate Association

Canadian inflation was 1.0% y/y in June, pulled down by energy prices. Core inflation, which excludes the eight most volatile CPI components, remains stable at 2.3%. Core inflation is the preferred measure of underlyinginflation for the Bank of Canada.

Resale housing

Alberta housing market weakened

The Alberta resale housing market remains weak. Sales fell 1.6% to 4,972 in June, down 20% from a year prior. Sales dropped 32% between October and February, but have partially recovered and are now downdown 20% from the October peak. Sales in Edmonton have held out better than other parts of the province (Chart 2). New listings in Alberta ticked up 0.3% to 8,285 in June, but were down 13% y/y. The average resale price fell 1.0% y/y to $395,102. Over the first half of 2015, Alberta sales were 22% lower than the same period last year, with new listings down 0.8% and the average resale price down 1.5%.

New motor vehicles

Sales decline further

There were 23,029 new motor vehicles sold in Alberta during May, a year over year decline of 14%, or 3,667 fewer vehicles. The yearly decline was the result of 3,338 fewer trucks, SUVs and vans sold, or a 16% decline y/y. Passenger car sales have been weak since the end of 2013, down 5.3% y/y

in May. The total sales volume of new vehicles was $925 million in May, a decrease of 16% y/y. There were 21,893 vehicles sold over the first five months of 2015, down 1.7% from the same period last year.

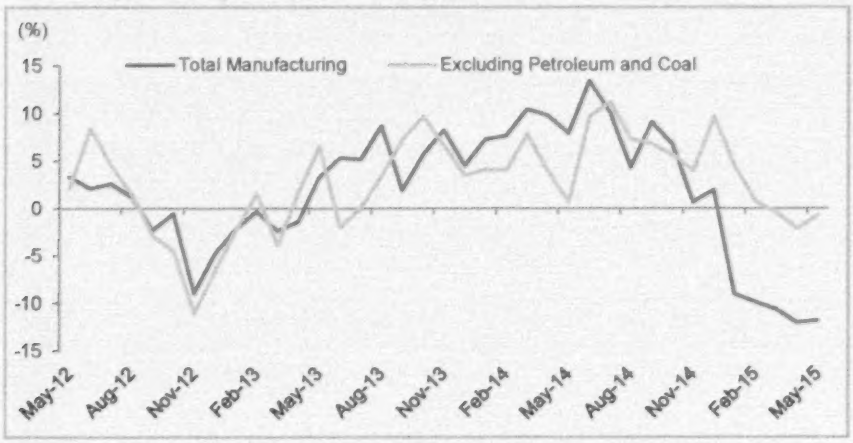
Manufacturing sales

Shipments inch higher

Alberta manufacturing shipments for May 2015 were worth $5.8 billion, a 0.9% increase over April. This is due to a slight uptick in petroleum and coal manufacturing, which increased 6.6%, but remains down 37% year-over-year (Chart 3). Non-energy manufacturing dropped 0.7%, the fifth decrease in a row. Shipments were pulled down by food manufacturing, which fell 3.9% on volumes. After dropping for five months, fabricated metals grew for the second straight month in May, up 6.6%.

Chart 3: Broad-based declines in manufacturing sales

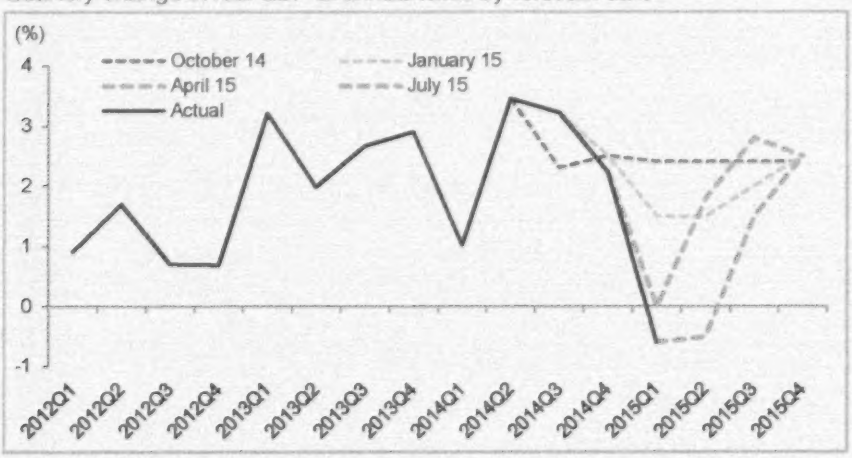
Year-over-year change in manufacturing sales



Source: Statistics Canada

Chart 4: The Bank of Canada real GDP forecast is revised down again

Quarterly change in real GDP at annual rates by forecast date



Source: Statistics Canada and Bank of Canada

Non-residential construction

Continued growth

Alberta second quarter non-residential construction increased 0.5%(in 2007 dollars) to the highest level since 2010. Growth was entirely due to 7.9% higher investment in institutional and government structures, notably schools. Private investment was lower in the second quarter, with commercial construction falling 0.7% and industrial construction down 2.4%.Both Edmonton and Calgary saw increases in non-residential construction. Growth in Edmonton outpaced Calgary due to a surge in commercial investment, which rose to an all-time high in the second quarter. Non-residential investment outside Alberta's two largest cities has fared poorly declining in every quarter since the last quarter of 2013, most recently falling 6.5%.

Bank of Canada

Low oil prices prompt 2nd rate cut

The Bank of Canada announced its second rate cut in half-a-year, lowering the overnight interest rate to 0.5%. The oil price shock has severely depressed business investment spurring the Bank to revise down its real GDP growth forecast for 2015 to just over 1%. The Bank has had to consistently revise down its GDP forecast as the full effects of lower oil prices have become apparent (Chart 4). However, the Bank expects growth to return through the remainder of 2015 and exert upward pressure on inflation, led by non-energy exports. The Loonie quickly depreciated down to 77.3 cents following the announcement.

Contact

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.